

**GATEWAY AREA DEVELOPMENT DISTRICT**  
**Morehead, Kentucky**

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**FINANCIAL STATEMENTS**  
**June 30, 2010**

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## **GATEWAY AREA DEVELOPMENT DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS**

Gateway Area Development District (GADD) is a governmental non-profit corporation formed pursuant to KRS Chapter 147A. One of fifteen statewide Area Development Districts established during 1966-1972, its mission is basic: to bring local civic and governmental leaders together to accomplish major objectives and take advantage of opportunities which cannot be achieved or realized by those governments acting alone. Also it serves as a focal point of a necessary federal-state-local partnership for improvement of the quality of life in the Commonwealth. GADD serves the five-county area of Bath, Menifee, Montgomery, Morgan, and Rowan counties.

GADD is governed by a Board of Directors comprised of elected officials from the counties and communities within the District, as well as non-elected citizen members representing a cross-section of the region's social and economic institutions. The office is managed by an Executive Director who reports directly to the Board. Office staff reports to the Executive Director.

This discussion and analysis narrative provides an overview of GADD's financial performance during the 2010 fiscal year. Please read the following in conjunction with the audited financial statements and the accompanying notes.

### **OVERVIEW OF THE ANNUAL REPORT**

This annual report includes the management's discussion and analysis, the independent auditors report, the GADD's audited financial statements, and notes to the financial statements. The notes to the financial statements explain in detail some of the information in the financial statements.

### **REQUIRED FINANCIAL STATEMENTS**

GADD's financial statements utilize the full accrual basis accounting. Also, the financial statements conform to generally accepted accounting principles and guidelines set forth by the Governmental Accounting Standards Board. GADD is a single fund, special-purpose entity that provides regional planning, development and aging services to the city, county and nonprofit agencies within the five county area. As such, the entity-wide financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. These statements display information about the entity as a whole.

GADD does not utilize multiple funds in accounting for its financial activities; therefore fund type statements are not presented. The statement of net assets details GADD's investments (assets) and debt (liabilities). The statement of net assets is very similar to the balance sheet. The statement of revenues, expenses and changes in net assets details revenue classified by source and expenditures by object for separate fiscal years and the statement of changes in net assets takes into account adjustments for prior year events.

## GADD's FINANCIAL ANALYSIS

The enclosed financial statements indicate that the financial condition of GADD declined slightly for the fiscal year ended June 30, 2010, which is shown by the \$109,158 decrease in net assets (i.e. the difference between assets and liabilities) reflected in the following table.

### Condensed Statement of Net Assets

	<u>FY 2010</u>	<u>FY 2009</u>
Current & Other Assets	\$ 1,584,546	\$ 1,646,847
Capital Assets	1,120,457	1,166,952
Amortized Assets	<u>13,389</u>	<u>13,751</u>
<b>Total Assets</b>	<b><u>\$ 2,718,392</u></b>	<b><u>\$ 2,827,550</u></b>
Current Liabilities	\$ 500,517	\$ 526,061
Long Term Liabilities	1,299,239	1,213,850
Net assets		
Invested in capital assets	33,427	66,952
Reserved	567,307	556,813
Unreserved	<u>317,902</u>	<u>463,874</u>
<b>Total Liabilities &amp; Net Assets</b>	<b><u>\$ 2,718,392</u></b>	<b><u>\$ 2,827,550</u></b>

At the close of the fiscal year, assets exceeded liabilities by \$918,636. Total assets decreased approximately 4% primarily due to a decrease in capital assets associated with the recognition of depreciation. Cash deposits as of June 30, 2010 were \$346,638 more than as of June 30, 2009, and outstanding receivables as of June 30, 2010 were \$407,939 less than as of June 30, 2009.

Total liabilities increased by \$59,845 primarily due to GADD obtaining an additional \$100,000 long-term loan from the USDA Rural Development. General operating liabilities, including lines of credit, owed as of June 30, 2010 was \$25,544 less than was owed as of June 30, 2009.

The 3.87% decrease in GADD's net assets from June 30, 2009 to June 30, 2010 is a significant improvement over the 6.15% decrease in net assets from June 30, 2008 to June 30, 2009.

GADD's revenues earned and expenses incurred throughout fiscal year 2010 were in accordance with management's expectations, closing the year with an overall loss of \$62,258. The amount of local funds needed to apply towards other programs improved significantly however, from \$167,595 in fiscal year 2009 to \$9,195 in fiscal year 2010.

The following statement of revenues, expenses, and changes in net assets provides a more detailed look.

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets**

	<u><b>FY 2010</b></u>	<u><b>FY 2009</b></u>
Federal revenues	\$ 754,980	\$ 610,377
State revenues	1,643,873	1,718,977
Local	351,196	253,716
Revolving loan interest	<u>10,495</u>	<u>22,954</u>
<b>Total Revenues</b>	<u><b>2,760,544</b></u>	<u><b>2,606,024</b></u>
Expenses		
Salaries	685,223	639,691
Fringe benefits	355,057	315,636
Travel	39,449	42,705
Sub Grantees	1,126,760	998,750
Other	<u>565,393</u>	<u>583,619</u>
Total Operating Expenses	<u><b>2,771,882</b></u>	<u><b>2,580,401</b></u>
<b>Operating Income (Loss)</b>	<b>(11,338)</b>	<b>25,623</b>
Non-operating Income (Expense)		
Bank interest	680	1,269
Interest expense	<u>(51,600)</u>	<u>(52,379)</u>
<b>Increase (Decrease) in net assets</b>	<b>(62,258)</b>	<b>(25,487)</b>
Net assets – beginning of year	1,087,639	1,160,335
Adjustments and changes	<u>(106,745)</u>	<u>(47,209)</u>
<b>Net Assets – End of Year</b>	<u><b>\$ 918,636</b></u>	<u><b>\$ 1,087,639</b></u>

From June 30, 2009 to June 30, 2010, total net assets decreased by 15.54% or \$169,003. Current fiscal year revenues increased \$154,520 from fiscal year 2008-09 and expenses increased by \$191,481. Operations reflect a net loss of \$11,338.

GADD's federal and state revenue attributable to grants and contracts incurred a slight increase of 2.98%. GADD is bound by contract limitations, and in some cases, these funds were insufficient to fully cover the corresponding administration costs. Local revenue, which includes both cash and in-kind contributions, increased by 38.42%. These federal, state, and local sources were offset by a 54.28% decrease in the revolving loan interest revenue.

There are two types of local revenue. The first type is any money received by GADD that is not related to a specific program, such as local county dues, donations and performance contracts. The other type of local revenue is any monies contributed to the Aging programs by local governments, such as county funding used to support the area senior citizens center. Local in-kind is any volunteer time, such as senior center volunteers, for which a value can be calculated. Only local funding received directly by GADD can be used to subsidize day-to-day activities and makes up only a small portion (approx. 15%) of the total local funds shown above.

An analysis of expenditures shows that both salaries and fringe benefits increased during the current fiscal year. Although management reduced the total number of full-time staff in fiscal year ending June 30, 2010 because of budget constraints, the savings was offset by a 99.8% increase in the Homecare aging program's personnel. A decision was made to hire part-time agency staff to provide some services rather than contracting with an outside entity or employing full-time staff with benefits.

Agency-wide travel expenses decreased during fiscal year 2010, including a 40.9% reduction in travel for non-program specific purposes, i.e. shared costs that include administrative staff and board.

Subgrantee expenses increased approximately 12.82% primarily due to larger matching contributions for GADD's aging program.

Other operating expenses decreased slightly - \$18,226.

Non-operating bank interest decreased due to the prevailing lower interest rates being paid by local banks. GADD was able to decrease its non-operating interest expense primarily as a result of monitoring the cash flow closer whereby amounts owed on the established lines of credit was less.

### **CAPITAL ASSETS**

GADD continued to invest in capital assets for fiscal year 2010. The amount includes property, equipment, building and land. Capital assets had a net balance of \$1,120,457 at June 30, 2010.

	<b>06-30-09 Balance</b>	<b>FY 2010 Additions</b>	<b>06-30-10 Balance</b>
Property and equipment	\$ 426,144	\$ 16,095	\$ 442,239
Building and land	<u>1,107,556</u>	<u>2,275</u>	<u>1,109,831</u>
Total fixed assets	1,533,700	18,370	1,552,070
Less: accumulated depreciation	<u>366,748</u>	<u>64,865</u>	<u>431,613</u>
Net	<u>\$ 1,166,952</u>	<u>\$ (46,495)</u>	<u>\$ 1,120,457</u>

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

GADD considered many factors when setting and monitoring the fiscal year 2010 budget. Our Area Development District receives most of its funding from federal, state and special contracts. Because of this, a portion of the source of income is fairly steady except for state-imposed budget reductions. With contract responsibilities and expenses increasing and revenue decreasing, it is very difficult to manage and is a constant battle to bring in enough contracts to cover what we need to do for our region. Most of our contracts are on a reimbursement basis and our contractors, being governmental entities, are historically slow to pay. We are committed to providing as close to the same level of service, as funding allows. As a safeguard to be sure that there is no interruption of service, we continue to utilize the line of credit obtained in FY 2007 to cover cost as they incur.

The major impact for fiscal year 2010-11 will be the continued effort to acquire more Performance Based contracts to offset the deficiency in the federal and state funded programs. Performance Based contracts revenue for fiscal year 2010 was \$234,778 – a 37.66% reduction from the \$376,605 in fiscal year 2009. GADD's dependency on Performance Based contracts will continue to be a high priority and of utmost importance. Federal and state funding amounts must increase to help offset the cost attributed to those specific programs supported by federal and state funds. Otherwise, management must rely upon Performance Based funding to contribute to those programs that fall short in funding.

GADD has experienced another extraordinarily difficult year, both financially and in management. For example, stipulations of contracts like the Transportation require a full time employee but there aren't enough funds to cover a seasoned full time employee. Continued staff management issues were experienced with loss of full-time staff, some due to lay-offs, and a change in financial officers.

### **CONTACTING GADD**

The financial report is designed to provide GADD's citizens, investors, creditors, and other interested party's with a general overview of the agency's finances and to demonstrate GADD's accountability for the funding it receives. If you have questions about this report or need additional financial information, contact Gail Wright, Executive Director, at 110 Lake Park Drive, Morehead, KY 40351. Mrs. Wright may also be reached by phone at (606) 780-0090, ext. 2108

# *rfh* Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

## INDEPENDENT AUDITORS' REPORT

Stephen R. Allen, CPA/PFS  
Dennis H. England, CPA  
Michael D. Foley, CPA  
Lyman Hager, Jr., CPA  
Jerry W. Hensley, CPA

Board of Directors  
Gateway Area Development District  
Morehead, Kentucky

J. Carroll Luby, CPA

We have audited the accompanying statement of net assets of the Gateway Area Development District as of June 30, 2010 and 2009 and the related statement of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Gateway Area Development District's management. Our responsibility is to express an opinion on these financial statements as a result of our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and **Government Auditing Standards**, as issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Gateway Area Development District as of June 30, 2010 and 2009, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 1 through 4 and page 16 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with **Government Auditing Standards**, we have also issued a report dated October 25, 2010 on our consideration of the Gateway Area Development District's internal control structure over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and its compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Gateway Area Development District, taken as a whole. The accompanying schedule of expenditures of federal awards on Page 29, as required by U.S. Office of Management and Budget Circular A-133, **Audits of States, Local Governments and Non-Profit Organizations**, and the other supplemental information on Pages 17 through 24 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley & Company, PLLC  
October 25, 2010

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**GATEWAY AREA DEVELOPMENT DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30,**

<b>ASSETS</b>	<b>2010</b>	<b>2009</b>
Current assets		
Cash-unrestricted	\$ 373,509	\$ 153,368
Cash- restricted	537,345	410,848
Accounts receivable, net		
Federal and state	86,706	124,564
Local	195,283	501,995
Prepaid expenses	-	1,000
Loans receivable- restricted, net of allowance (Note 5)	<u>391,703</u>	<u>455,072</u>
Total current assets	1,584,546	1,646,847
Capital assets		
Property, equipment and construction in process, net	1,120,457	1,166,952
Ammortized assets	<u>13,389</u>	<u>13,751</u>
Total assets	<u>\$ 2,718,392</u>	<u>\$ 2,827,550</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable	\$ 219,626	\$ 220,325
Accrued payroll and payroll taxes	10,481	23,086
Accrued annual leave	38,602	39,018
Accrued interest payable	1,013	1,123
Other current liabilities	14,494	15,436
Deferred credits, unearned grants (note 5)	80,086	76,256
Lines of credit	114,518	129,634
Notes payable, current portion	<u>21,697</u>	<u>21,183</u>
Total current liabilities	500,517	526,061
Long-term debt	<u>1,299,239</u>	<u>1,213,850</u>
Net Assets		
Invested in capital assets	33,427	66,952
Restricted for economic development	567,307	556,813
Unrestricted	<u>317,902</u>	<u>463,874</u>
Total net assets	<u>918,636</u>	<u>1,087,639</u>
Total liabilities and net assets	<u>\$ 2,718,392</u>	<u>\$ 2,827,550</u>

The accompanying notes are an integral part  
of the financial statements.

**GATEWAY AREA DEVELOPMENT DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
for the years ended June 30,

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	2010	2009
<b>REVENUES</b>		
Federal	\$ 754,980	\$ 610,377
Commonwealth of Kentucky	1,643,873	1,718,977
Local (includes in-kind)	351,196	253,716
Revolving loan interest	<u>10,495</u>	<u>22,954</u>
 Total revenues	 <u>2,760,544</u>	 <u>2,606,024</u>
<b>EXPENSES</b>		
Salaries	685,223	639,691
Fringe benefits	355,057	315,636
Travel	39,449	42,705
Subgrantees	1,126,760	998,750
Other	<u>565,393</u>	<u>583,619</u>
 Total expenses	 <u>2,771,882</u>	 <u>2,580,401</u>
 <b>OPERATING INCOME</b>	 (11,338)	 25,623
 <b>NONOPERATING INCOME (EXPENSE)</b>		
Bank interest	680	1,269
Interest expense	<u>(51,600)</u>	<u>(52,379)</u>
 (Decrease) in net assets	 (62,258)	 (25,487)
 Net assets - beginning of year	 1,087,639	 1,160,335
 Adjustments for deferred income (accounts receivable) and write-offs from prior years	 (117,239)	 (37,083)
Net change in Revolving loan fund (RLF) balance	<u>10,494</u>	<u>(10,126)</u>
 <b>NET ASSETS - END OF YEAR</b>	 <u>\$ 918,636</u>	 <u>\$ 1,087,639</u>

The accompanying notes are an integral  
part of the financial statements.

**GATEWAY AREA DEVELOPMENT DISTRICT**  
**STATEMENT OF CASH FLOWS**  
for the years ended June 30,

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from grantor agencies	\$ 2,323,301	\$ 2,284,776
Local cash received	721,277	276,842
Payments to suppliers	(1,667,201)	(1,601,024)
Payments to employee services and benefits	(1,054,242)	(939,796)
Revolving loan interest	20,989	22,954
Net cash provided by operating activities	<u>344,124</u>	<u>43,752</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Interest expense	(44,662)	(45,098)
Purchases of capital assets	(18,300)	(6,378)
Loan proceeds	100,000	-
Principal paid on capital debt	<u>(12,970)</u>	<u>(4,867)</u>
Net cash provided by (used in) capital and related financing activities	<u>24,068</u>	<u>(56,343)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Bank interest	<u>680</u>	<u>1,269</u>
Net cash provided by investing activities	<u>680</u>	<u>1,269</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Line-of-credit interest	(7,048)	(7,281)
Change in line-of-credit, net	<u>(15,186)</u>	<u>(82,039)</u>
Net cash (used in) noncapital financing activities	<u>(22,234)</u>	<u>(89,320)</u>
Net increase (decrease) in cash	346,638	(100,642)
Cash - beginning of the year	<u>564,216</u>	<u>664,858</u>
<b>CASH - END OF THE YEAR</b>	<u>\$ 910,854</u>	<u>\$ 564,216</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Excess revenues over expenses	\$ (11,338)	\$ 25,623
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation & amortization	65,226	61,789
Net change in RLF fund balance	10,494	(10,126)
Prior year deferred grant activity	(117,239)	(37,083)
Change in assets and liabilities:		
Receivables, net	344,570	95,930
Prepaid expenses	1,000	-
Loans receivable	63,369	(66,548)
Accounts and other payables	(699)	(27,708)
Accrued expenses	(13,546)	16,469
Accrued leave	(416)	(843)
Loans payable	(1,127)	-
Deferred revenues	<u>3,830</u>	<u>(13,751)</u>
Net cash provided by operating activities	<u>\$ 344,124</u>	<u>\$ 43,752</u>

The accompanying notes are an integral  
part of the financial statements.

**GATEWAY AREA DEVELOPMENT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010 and 2009**

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**1. SUMMARY OF ACCOUNTING POLICIES**

The Gateway Area Development District (GADD) is a governmental non-profit corporation formed pursuant to KRS Chapter 147A which has as its primary purpose the promotion of economic development and the establishment of a framework for joint federal, state and local efforts directed toward providing basic services and facilities essential to the social, economic and physical development of a five-county area in eastern Kentucky. Executive Order 71-1267, signed May 1969, designated the District as the official comprehensive planning and program development agency for eastern Kentucky. The Order further designated the District as the regional clearinghouse pursuant to United States Office of Management and Budget Circular A-95 known in Kentucky as KIRP, Kentucky Intergovernmental Review Process. The 1972 Kentucky Legislature introduced and passed legislation (House Bill No. 423) which created and established the District under Kentucky law.

**Reporting Entity** - The District's financial statements include the operations of all entities for which its Board of Directors exercise oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability of fiscal matters.

**Basis of Presentation**- The financial statements are presented in accordance with the provisions of Governmental Accounting Standards Board Statement No. 34, "**Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments**" as it relates to special-purpose governments and, accordingly, the financial statements consist of the following:

Management's discussion and analysis (required supplementary information);

Basic financial statements

Entity-wide financial statements

Fund financial statements

Notes to the financial statements

Entity-wide financial statements – GADD is a single fund, special-purpose entity that provides regional planning, development and aging services to the city, county and nonprofit agencies within the five county area. No entity wide statements are required because a single proprietary fund is used for the District.

Fund Financial Statements – GADD's financial statements include a statement of net assets, a statement of revenues, expenses, and changes of net assets and a statement of cash flows.

GADD follows the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not contradict GASB pronouncements.

**Basis of Accounting** – Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Costs for all programs (including those programs outside of the Joint Funding Administration (JFA)) have been accounted for under the accounting system prescribed by the JFA. Indirect expenses have been allocated to JFA program elements and other programs on the basis of direct salary and fringe costs as allocated per employee's time records. Non-federal matching contributions are applied to individual programs on the basis of total expenses incurred on the program and the sharing ratio specified in the program agreement.

**Revenue Recognition Policies** – The District recognizes revenue on the accrual basis of accounting. Grant and contract revenue is recognized as eligible expenses are incurred. Revenue is recognized on performance contracts upon the completion of agreed upon services.

**GATEWAY AREA DEVELOPMENT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010 and 2009**

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**1. SUMMARY OF ACCOUNTING POLICIES, continued**

**Deferred Revenue** – Deferred revenue arises when funds are received before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

**Fixed Assets** – Property and equipment are stated at cost and depreciated over their estimated useful lives of three (3) to ten (10) years using the straight-line method of depreciation. Property and equipment include furniture, office equipment, vehicles and leasehold improvements. Depreciation expense is charged to shared costs and is allocated to the various grants using the approved cost allocation plan.

**Budgeting** – The District is not required to adopt a legal budget in the manner of most local governmental entities, the budget is an operational and management tool that ensures the maximum use of resources. The budget is approved by the board of directors and monthly reports are presented to the board and management using budget comparisons.

**In-Kind** - In-kind contributions included in the accompanying financial statements consist of donated volunteer time, facilities or services.

**Compensated Absences** - Employees of the District accrue sick leave at the rate of 10 hours per month. Temporary employees earn no benefits. The maximum amount of sick leave that may be accrued is 720 hours. Annual leave is earned on the same basis as sick leave and can be carried forward from one year to the next. A maximum amount of annual leave of 240 hours may be carried forward. The accrued liability for accumulated annual leave is reported on the balance sheet at June 30, 2010 and 2009 was \$38,602 and \$39,018, respectively.

**Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. INCOME TAXES**

GADD is a non-profit organization formed in 1969, and is exempt from income taxes under Internal Revenue Code 501(c)(1) as determined by the IRS.

**3. CASH AND INVESTMENTS**

The District's deposits and investments at June 30, 2010 were fully covered by federal depository insurance and pledged securities. The district had bank deposits of \$968,450. Kentucky Revised Statutes authorize local governmental entities to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies and deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies. At June 30, 2009, the District's deposits and investments were fully covered by federal depository insurance and pledged securities. The district had bank deposits totaling \$663,378.

**GATEWAY AREA DEVELOPMENT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010 and 2009**

**4. GRANTS RECEIVABLE**

Federal and state receivables are expected to be fully collectible. At June 30, 2010 and 2009 local receivables are shown net of an allowance of \$11,471 and \$29,461, respectively. Federal and state grants receivable consists of the following:

	<b>2010</b>	<b>2009</b>
KOHS Strategic Planning	\$ -	\$ 1,059
WIA	29,629	19,476
Transportation Planning	16,371	38,100
CDO	20,272	57,192
NHPLP	12,000	-
ARRA	2,810	-
Hazard Mitigation	5,436	-
Miscellaneous	188	-
Highway Safety	<u>-</u>	<u>8,737</u>
Total	<u>\$ 86,706</u>	<u>\$ 124,564</u>

**5. LOANS RECEIVABLE**

Revolving Loan Program – established by initial grants from the Economic Development Administration to assist high-risk small businesses in the area local communities with infrastructure.

Nonprofit Housing Production Loan Program – funding originates from the Kentucky Housing Corporation to provide loans to purchase or rehabilitate homes for low-income individuals.

	<b>2010</b>	<b>2009</b>
Revolving loans - business	\$ 538,933	\$ 607,343
NHPLP	<u>88,123</u>	<u>83,082</u>
Total	627,056	690,425
Less: reserve for RLF	<u>(235,353)</u>	<u>(235,353)</u>
Net	<u>\$ 391,703</u>	<u>\$ 455,072</u>

**6. REVOLVING LOAN PROGRAM**

Gateway Area Development District, Inc. received a grant of \$500,000 from the U.S. Department of Commerce, Economic Development Administration (EDA) to establish a revolving loan program to stimulate economic development in the area. In addition, the District provided a local match of \$167,000, as required by the grant. At June 30, 2010, the accompanying financial statements include RLF loans receivable for \$538,933 and cash of \$356,050.

**7. CAPITAL ASSETS**

The District maintains property and equipment used in its operations. Fixed assets are stated at cost and depreciated over their estimated useful lives of three (3) to ten (10) years using the straight-line method of depreciation. Property and equipment include furniture, office equipment, vehicles and leasehold improvements. Depreciation expense is charged to shared costs and is allocated to the various grants using the approved cost allocation plan.

**GATEWAY AREA DEVELOPMENT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2010 and 2009

**7. CAPITAL ASSETS, continued**

The following summarizes the changes in fixed assets during the fiscal years:

	06/30/08 Balance	FY 2009 Additions	06/30/09 Balance	FY 2010 Additions	06/30/10 Balance
Property and equipment	\$ 426,144	\$ -	\$ 426,144	\$ 16,095	\$ 442,239
Building and land	<u>1,101,178</u>	<u>6,378</u>	<u>1,107,556</u>	<u>2,275</u>	<u>1,109,831</u>
Total fixed assets	1,527,322	6,378	1,533,700	18,370	1,552,070
Less: accumulated depreciation	<u>(305,321)</u>	<u>(61,427)</u>	<u>(366,748)</u>	<u>(64,865)</u>	<u>(431,613)</u>
Net	<u>\$ 1,222,001</u>	<u>\$ (55,049)</u>	<u>\$ 1,166,952</u>	<u>\$ (46,495)</u>	<u>\$ 1,120,457</u>

**8. LONG-TERM DEBT**

Notes payable consists of loans obtained for the current office building, in addition to various loans which were received for lending purposes for economic development and low-income housing and will be repaid from payments collected from borrowers

Kentucky Housing Corporation, consists of various smaller loans, each with a 20-year maturity, bearing interest at a rate of 1%, currently due beginning June of 2017.

\$ 133,906

USDA Rural Development, secured by current office building, \$100,000 loan bearing interest at a rate of 4.125%, due May of 2050.

100,000

USDA Rural Development, obtained for the current office building, consists of two \$550,000 loans that bear interest at a rate of 4.125%, due June of 2047.

1,087,030

Total debt

1,320,936

Less: current portion

(21,697)

Total long-term debt

\$ 1,299,239

Minimum required payments are as follows:

Year	Principal	Interest	Total
2011	\$ 21,697	\$ 48,986	\$ 61,953
2012	22,232	48,451	61,953
2013	23,921	47,894	63,085
2014	24,547	47,268	63,085
2015	25,200	46,616	63,085
2016-2020	136,766	222,309	315,425
2021-2025	157,623	201,452	315,425
2026-2030	142,457	175,924	315,425
2031-2035	170,746	144,679	315,425
2036-2040	208,997	106,434	315,431
2041-2045	255,834	59,621	315,455
2046-2050	<u>131,434</u>	<u>10,526</u>	<u>141,960</u>
Totals	<u>\$ 1,320,936</u>	<u>\$ 1,160,160</u>	<u>\$ 2,347,707</u>

**GATEWAY AREA DEVELOPMENT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010 and 2009**

**9. LINES OF CREDIT**

The District maintains operating lines of credit of totaling \$300,000 from Whitaker Bank and Traditional Bank. The balance at Traditional Bank as of June 30, 2010 and 2009 was \$114,518 and \$115,641, respectively. The balance at Whitaker Bank as of June 30, 2010 and 2009 was \$0 and \$13,993, respectively. The notes bear interest at 3.5%. Interest expense for FY 2010 and 2009 was \$5,509 and \$9,008, respectively. The balances of these notes are classified as current liabilities in the statement of net assets.

**10. UNEARNED GRANT REVENUE**

The June 30, 2010 and 2009 unearned grant revenue or deferred revenue includes revenues received, but not earned, for Gateway Area Development grants as following:

	2010	2009
JFA - Economic Development	\$ 221	\$ -
JFA - CDBG	13	-
JFA - ARC	13,929	-
JFA - Management Assistance	142	-
JFA - Program Administration	131	-
Aging - Administration	887	
Adult Day Care	3,403	3,387
Homecare - Administration	786	-
Homecare - Social Services	1,475	-
Title III C-1	932	585
Title III C-2	9,306	-
Title III B	16,615	16,540
Title III E	662	-
State LTC Ombudsman	1,346	1,346
Wait list meals	8,531	8,601
HICA	2,627	-
MIPPAABOA	24	-
Transportation	144	-
Title III D	9,762	8,726
KY Caregiver	34	-
WIA	1,370	-
RRAA	-	3,900
ADRM	-	1,932
USDA	-	22,423
Elder Readiness	-	1,141
PCAP	533	517
NSIP	7,158	7,158
ARRA	<u>55</u>	<u>-</u>
Total	<u>\$ 80,086</u>	<u>\$ 76,256</u>

**GATEWAY AREA DEVELOPMENT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010 and 2009**

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**11. RETIREMENT PLAN**

Gateway Area Development District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended June 30, 2010, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2010, participating employers contributed 16.16% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution (employee and employer) and the actual percentage contributed for the District for the current and previous two years are as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2010	\$ 131,033	100%
2009	\$ 109,474	100%
2008	\$ 130,325	100%

**12. LEASE COMMITMENTS**

The District also has operating leases for office equipment. Rental expense in FY 2010 and 2009 was \$17,271 and \$7,933, respectively.

**13. COMMITMENTS AND CONTINGENCIES**

The financial statements contained herein do not include any provisions or allowances for any questioned or disallowed costs.

**GATEWAY AREA DEVELOPMENT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

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**14. GATEWAY MEDICAID CDO**

GADD provides fiscal management services to Gateway CDO Program as Fiscal Agent (GADD CDO). GADD CDO operates the Consumer Directed Options program for the Cabinet for Health and Family Services, Department of Aging and Independent Living (DAIL) for the Gateway Area District. Waiver clients have the option to choose CDO at any time. The ADD serves as the fiscal agent for the client and as a support broker. As clients opt for CDO, Medicaid advances funds based on client budgets. These funds are to be used to pay for services on behalf of the client. Throughout the year, DAIL reassesses the CDO program funding. Funds for each ADD are realigned and/or increased in accordance with the client data. In addition to advances, as client services are rendered, Medicaid is billed and the funds are paid to the ADD to reimburse the client account. During the years ended June 30, 2010 and 2009, GADD passed through \$384,710 and \$409,744, respectively, to GADD CDO for client expenses. At June 30, 2010 and 2009 the District had advanced funds to the GADD CDO, resulting in receivables of \$41,953 and \$102,138, respectively.

**15. PRIOR YEARS GRANT ACTIVITY**

The following adjustments and write-offs have been made as a result of prior year activities:

	<b>2010</b>	<b>2009</b>
Accounts payable	\$ 19,252	\$ -
Accounts receivable	(128,577)	(37,083)
Deferred revenue	<u>(7,914)</u>	<u>-</u>
Total	<u>\$ (117,239)</u>	<u>\$ (37,083)</u>

**16. RECLASSIFICATIONS**

Certain reclassifications have been made to the 2009 financial statements in order to conform to the 2010 presentation with no effect on previously reported results of activities or net assets.

**17. SUBSEQUENT EVENTS**

The District has evaluated and considered the need to recognize or disclose subsequent events through October 25, 2010, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2009, have not been evaluated by the District.

## **SUPPLEMENTAL INFORMATION**

**GATEWAY AREA DEVELOPMENT DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISONS  
for the year ended JUNE 30, 2010**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>REVENUES</b>				
Federal Funds	\$ 1,022,173	\$ 1,022,173	\$ 766,494	\$ (255,679)
State Funds	878,328	878,328	2,017,069	1,138,741
Local Funds	431,000	431,000	151,539	(279,461)
Federal, State & Local Service	<u>138,955</u>	<u>138,955</u>	<u>210,832</u>	<u>71,877</u>
	<u>2,470,456</u>	<u>2,470,456</u>	<u>3,145,934</u>	<u>675,478</u>
<b>EXPENSES</b>				
Salaries & wages	632,779	632,779	685,223	52,444
Employee benefits	288,801	288,801	355,057	66,256
Aging pass through to local agencies	713,619	713,619	1,126,760	413,141
Travel	42,463	42,463	39,445	(3,018)
Equipment, leases and depreciation	-	-	87,503	87,503
Insurance	-	-	11,608	11,608
Postage	-	-	1,722	1,722
Dues, fees and subscriptions	-	-	3,349	3,349
Interest	-	-	51,600	51,600
Other costs	<u>591,045</u>	<u>591,045</u>	<u>845,925</u>	<u>254,880</u>
	<u>2,268,707</u>	<u>2,268,707</u>	<u>3,208,192</u>	<u>939,485</u>
<b>EXCESS REVENUES</b>	<u>\$ 201,749</u>	<u>\$ 201,749</u>	<u>\$ (62,258)</u>	<u>\$ (264,007)</u>

**COST ALLOCATION POLICY**

## GATEWAY AREA DEVELOPMENT DISTRICT COST ALLOCATION POLICY

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All funds expended by Gateway Area Development District are charged either to a specific grant and/or program element as a Direct Charge or spread to all grants and/or program elements as a Shared (Indirect) cost. Direct charges are defined in OMB Circular A-87 as those that can be identified specifically with a particular cost objective. Shared (Indirect) costs are those incurred for a common or joint purpose benefiting more than one grant and/or program element. All costs are recognized under the provisions of OMB Circular A-102. Below is a listing of direct and shared costs as they are charged by Gateway ADD.

### Direct/Shared Costs

1. **Salary** - Salaries of all professional employees are charged as direct costs to the grants and/or program elements in which their work is attributable. These charges are based on time sheets submitted by all employees. The Executive Director, fiscal officer and any employee whose time is so fragmented between elements are charged as shared costs.
2. **Employee Burden** - All employee burden which can be specifically related to an employee whose salary is charged as a direct cost is also charged as a direct cost. Similarly, the employee burden of those persons whose salary is charged as a shared cost is charged as shared cost.
3. **Consultant Contracts and Contractual Services** - Contracts whose content can be directly attributed to a specific grant and/or program element are charged as direct costs to those programs. Other contracts, such as for public information or secretarial services, whose content can be directly attributed to a specific grant and/or program element are charged as direct costs to those programs. Other contracts, such as for public information or secretarial services whose content cannot be directly attributed to a specific program task, are charged as shared costs.
4. **Printing** - Outside printing costs which are readily identifiable and attributable to documents within a specific grant and/or work element are charged as direct costs. Miscellaneous printing costs are charges as shared costs.
5. **Travel** - All travel costs which are directly attributable to an employee whose salary is charged as a direct cost is also charged as direct cost. All other travel costs, for Staff and Board, are charged as shared costs. Staff travel costs are allocated to grants and/or program elements accordingly to the total time spent by an employee on a specific program element during the month in which the travel occurred.
6. **Vacation, Sick and Holiday Leave** - All leave which can be specifically related to an employee whose salary is being charged as a direct cost is also charged as a direct cost. Any leave which is related to an employee whose salary is being charged as a shared cost is also charged as a shared cost.

**GATEWAY AREA DEVELOPMENT DISTRICT  
COST ALLOCATION POLICY, continued**

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7. **Audit Fees** - All audit fees are charged as a shared cost.
8. **Space Cost**- The space cost is charges as a shared cost. The Area Development District's lease provides for utilities, cleaning, and repairs, to be charges to the lease, with the exception of the telephone.
9. **Equipment Rental/Purchase** - Because of the fact that all rental office equipment will, during the course of a fiscal year, benefit all grants and/or program elements, equipment rental costs are charged as shared costs.
10. **Communications** - All communication costs, including telephone, postage and the like, are charged as shared costs.
11. All additional costs which are not identified above are charged as shared costs unless otherwise indicated by the Governor's Office of Local Development or prohibited by Federal regulations.

**GATEWAY AREA DEVELOPMENT DISTRICT  
SCHEDULE OF SHARED COSTS  
for the years ended June 30,**

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<b>Cost Category</b>	<b>2010</b>	<b>2009</b>
Personnel compensation	\$ 196,291	\$ 178,397
Fringe benefits	123,443	106,547
Travel	3,744	9,150
Accounting and audit	29,915	26,645
Equipment, leases, depreciation and amortization	84,865	69,722
Supplies	19,079	18,495
Postage	1,722	559
Telephone and utilities	25,798	19,741
Committee meetings	3,233	1,473
Dues, fees and subscriptions	2,849	9,618
Insurance	6,743	29,888
Other	38,342	47,809
Interest	<u>50,171</u>	<u>52,474</u>
 Total shared costs allocated	 <u>\$ 586,195</u>	 <u>\$ 570,518</u>

**GATEWAY AREA DEVELOPMENT DISTRICT  
JOINT FUNDING ADMINISTRATION PROGRAM  
Period of Performance: July 1, 2009-June 30, 2010**

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		<b>Budget</b>	<b>Direct</b>	<b>Indirect</b>	<b>Total</b>	<b>Over (Under) Budget</b>	<b>Questioned Costs (Ref.)</b>
<b>Revenues</b>							
Federal Funds		\$ 131,541	\$ -	\$ -	\$ 131,528	\$ (13)	
State Funds		99,528	-	-	99,034	(494)	
Local Funds		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
		<u>231,069</u>	<u>-</u>	<u>-</u>	<u>230,562</u>	<u>(507)</u>	
<b>Expenses</b>							
Community & Economic Planning & Development	120	82,949	45,637	36,393	82,030	(919)	
Community Development Block Grant	125	27,016	15,582	11,421	27,003	(13)	
ARC Planning	130	108,816	60,715	48,799	109,514	698	
Management Assistance	140	6,144	3,469	2,533	6,002	(142)	
Program Administration	150	<u>6,144</u>	<u>3,465</u>	<u>2,548</u>	<u>6,013</u>	<u>(131)</u>	<u>-</u>
		<u>231,069</u>	<u>128,868</u>	<u>101,694</u>	<u>230,562</u>	<u>(507)</u>	<u>\$ -</u>
<b>Revenues over Expenses</b>							
		<u>\$ -</u>			<u>\$ -</u>	<u>\$ -</u>	

**FINANCIAL SCHEDULES  
AREA AGENCY ON AGING**

**GATEWAY AREA DEVELOPMENT DISTRICT**  
**STATEMENT OF COMPLETED GRANT AREA AGENCY ON AGING**  
for the year ended June 30, 2010

	Title III							Total Title III
	Agency Adminis- tration	Social Services B	Cong. Meals C-1	H.D. Meals C-2	D	E	F	
<b>Revenues</b>								
Federal grant	\$ 39,775	\$ 141,992	\$ 105,215	\$ 57,738	\$ 8,345	\$ 43,296	\$ 1,570	\$ 400,920
State grant	17,039	13,883	30,240	15,545	3,965	-	-	80,672
Local	-	44,560	20,182	140,204	-	14,700	520	221,070
Interest on advance	-	-	-	-	-	-	-	-
Program income	-	3,263	20,796	4,090	-	-	-	28,149
Local funds applied	-	-	-	-	-	-	-	-
<b>Total revenues</b>	<u>56,814</u>	<u>203,698</u>	<u>176,433</u>	<u>217,577</u>	<u>12,310</u>	<u>57,996</u>	<u>2,090</u>	<u>730,811</u>
<b>Expenses</b>								
Salaries	18,630	8,803	4,189	-	4,061	11,401	-	47,084
Fringe benefits	11,120	5,450	2,713	-	2,236	5,135	-	26,654
Staff travel	600	1,374	180	-	139	616	-	2,909
Subgrantees	-	172,413	160,576	217,577	-	18,780	2,090	575,329
Other costs	2,262	4,063	3,160	-	751	8,612	-	18,848
<b>Total direct cost</b>	<u>32,612</u>	<u>192,103</u>	<u>170,818</u>	<u>217,577</u>	<u>7,187</u>	<u>44,544</u>	<u>2,090</u>	<u>670,824</u>
Shared costs	24,202	11,595	5,615	-	5,123	13,452	-	59,987
<b>Total expenses</b>	<u>56,814</u>	<u>203,698</u>	<u>176,433</u>	<u>217,577</u>	<u>12,310</u>	<u>57,996</u>	<u>2,090</u>	<u>730,811</u>
<b>Revenue over expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**GATEWAY AREA DEVELOPMENT DISTRICT**  
**STATEMENT OF COMPLETED GRANT AREA AGENCY ON AGING**  
for the year ended June 30, 2010

	Home care			Other							Total Agency on Aging		
	Admin	Soc Service	H.D.Meals	ADC	NSIP	Personal Care Attendant	HICA	LTC Ombudsman	KY CAREGIVER	MIPPAABOA		ARRA	
Revenues													
Federal grant	\$ -	\$ -	\$ -	\$ -	\$ 41,306	\$ -	\$ 16,579	\$ -	\$ -	\$ 5,056	\$ 26,702	\$ 89,643	\$ 490,563
State grant	26,552	214,790	78,020	69,854	-	278,963	-	25,304	45,284	-	-	738,767	819,439
Local	-	1,893	9,034	-	-	-	-	-	-	-	4,389	15,316	236,386
Interest on advance	-	-	-	-	-	-	-	-	-	-	-	-	-
Program income	-	-	-	-	-	-	-	-	-	-	-	-	-
Local funds applied	-	-	-	-	-	-	-	-	-	-	-	-	28,149
Total revenues	26,552	216,683	87,054	69,854	41,306	278,963	16,579	25,304	45,284	5,056	31,091	843,726	1,574,537
Expenses													
Salaries	7,788	55,503	-	1,699	-	3,647	6,200	-	3,439	1,549	913	80,738	127,822
Fringe benefits	4,358	12,903	-	1,077	-	2,385	2,752	-	2,205	831	535	27,046	53,700
Staff travel	287	15,651	-	61	-	721	-	-	113	38	-	16,871	19,780
Subgrantees	-	43,266	87,054	60,325	41,306	265,711	-	25,304	-	-	28,465	551,431	1,126,760
Other costs	4,238	33,711	-	4,434	-	1,592	344	-	34,936	702	-	79,957	98,805
Total direct cost	16,671	161,034	87,054	67,596	41,306	274,056	9,296	25,304	40,693	3,120	29,913	756,043	1,426,867
Shared costs	9,881	55,649	-	2,258	-	4,907	7,283	-	4,591	1,936	1,178	87,683	147,670
Total expenses	26,552	216,683	87,054	69,854	41,306	278,963	16,579	25,304	45,284	5,056	31,091	843,726	1,574,537
Revenue over expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**GATEWAY AREA DEVELOPMENT DISTRICT**  
**STATEMENT OF OPERATIONS FOR CONSUMER DIRECTED OPTION (CDO)**  
**for the year ended June 30, 2010**

	<u>Support</u>	<u>Mgmt</u>	<u>Total CDO</u>
<b>Revenues</b>			
Federal grant	\$ -	\$ -	\$ -
State grant	134,090	53,500	187,590
Local	11,973	-	11,973
Interest on advance	-	-	-
Program income	-	-	-
Local funds applied	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>146,063</u>	<u>53,500</u>	<u>199,563</u>
<b>Expenses</b>			
Salaries	57,016	19,809	76,825
Fringe benefits	16,299	9,714	26,013
Staff travel	2,722	-	2,722
Subgrantees	-	-	-
Other costs	6,129	(1,319)	4,810
	<u>6,129</u>	<u>(1,319)</u>	<u>4,810</u>
Total direct cost	82,166	28,204	110,370
Shared costs	<u>59,643</u>	<u>24,017</u>	<u>83,660</u>
Total expenses	<u>141,809</u>	<u>52,221</u>	<u>194,030</u>
Revenue over expenses	<u>\$ 4,254</u>	<u>\$ 1,279</u>	<u>\$ 5,533</u>

**OTHER GRANT SCHEDULES**

**GATEWAY AREA DEVELOPMENT DISTRICT  
STATEMENT OF OPERATIONS  
WORKFORCE INVESTMENT ACT  
for the year ended June 30, 2010**

	<u>Dislocated Worker</u>	<u>Dislocated Worker ARRA</u>	<u>Adult Services</u>	<u>Adult Services ARRA</u>	<u>Rapid Response</u>	<u>Total</u>
<b>Revenues</b>						
Federal funds	\$ 15,096	\$ 25,126	\$ 34,793	\$ 6,715	\$ 32,610	\$ 114,340
State funds	-	-	-	-	-	-
Interest on advance	-	-	-	-	-	-
Local funds	-	-	-	-	-	-
Annual Assessments	-	-	-	-	-	-
Other	-	-	-	-	-	-
Applied to programs	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>
Total revenues	<u>15,099</u>	<u>25,126</u>	<u>34,793</u>	<u>6,715</u>	<u>32,610</u>	<u>114,343</u>
<b>Expenses</b>						
Direct costs						
Salaries	6,259	10,397	10,200	2,174	13,633	42,663
Employee benefits	1,765	3,458	8,255	1,365	3,898	18,741
Travel	547	-	1,231	297	277	2,352
Subgrantees	-	-	-	-	-	-
Other costs	<u>-</u>	<u>-</u>	<u>94</u>	<u>-</u>	<u>540</u>	<u>634</u>
	8,571	13,855	19,780	3,836	18,348	64,390
Shared costs	<u>6,528</u>	<u>11,271</u>	<u>15,013</u>	<u>2,879</u>	<u>14,262</u>	<u>49,953</u>
Total expenses	<u>15,099</u>	<u>25,126</u>	<u>34,793</u>	<u>6,715</u>	<u>32,610</u>	<u>114,343</u>
Revenues over expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**GATEWAY AREA DEVELOPMENT DISTRICT**  
**STATEMENT OF OPERATIONS BY PROGRAM AND SUPPORTING SERVICES**  
for the year ended June 30, 2010

	JFA Schedule	Area Agency on Aging	WIA	Trans- portation	Highway Safety	Elder Readiness Grant	Revolving Loan Program	NHPLP Grants	Gateway Home	NIMS	Hazard Mitigation	Performance Contracts	Pass Through Contracts	Total CDO	G & A Expense	Local Operations	Total
<b>Revenues</b>																	
Federal funds	\$ 131,528	\$ 490,563	\$ 114,340	\$ -	\$ 11,088	\$ -	\$ -	\$ -	\$ -	\$ 2,025	\$ 5,436	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 754,980
State funds	98,034	819,439	-	67,479	-	1,141	-	4,711	232,839	-	-	231,640	-	187,590	-	-	1,643,873
Interest on advance	-	-	-	-	-	-	-	-	-	-	-	-	-	11,973	-	-	11,973
Local funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Annual Assessments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	264,535	-	7,513	-	-	10,485	-	-	-	-	3,138	-	-	-	45,742	45,742
Applied to programs	-	-	3	-	-	-	5,535	3,657	-	-	-	-	-	-	-	18,975	304,656
																(9,195)	-
<b>Total revenues</b>	<b>230,562</b>	<b>1,574,537</b>	<b>114,343</b>	<b>74,992</b>	<b>11,088</b>	<b>1,141</b>	<b>16,030</b>	<b>8,368</b>	<b>232,839</b>	<b>2,025</b>	<b>5,436</b>	<b>234,778</b>	<b>-</b>	<b>199,563</b>	<b>-</b>	<b>55,522</b>	<b>2,761,224</b>
<b>Expenses</b>																	
<b>Direct costs</b>																	
Salaries	78,990	127,822	42,663	25,612	3,795	-	4,960	1,028	5,001	735	1,941	119,560	-	76,825	196,291	-	685,223
Employee benefits	46,015	53,700	18,741	14,497	2,049	-	3,669	540	2,725	531	893	62,241	-	26,013	123,443	-	355,057
Travel	2,861	19,780	2,352	1,108	200	-	93	-	-	-	296	6,293	-	2,722	3,744	-	39,449
Subgrantees	-	1,126,760	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,126,760
Other costs	1,002	98,805	634	1,146	-	1,141	288	5,524	216,267	-	-	13,244	-	4,810	262,717	11,415	616,993
																	-
Shared costs	128,868	1,426,867	64,390	42,363	6,044	1,141	9,010	7,092	223,993	1,266	3,130	201,338	-	110,370	586,185	11,415	2,823,482
	101,694	147,670	49,953	32,629	5,044	-	7,020	1,276	6,286	759	2,306	147,898	-	83,660	(586,195)	-	-
<b>Total expenses</b>	<b>230,562</b>	<b>1,574,537</b>	<b>114,343</b>	<b>74,992</b>	<b>11,088</b>	<b>1,141</b>	<b>16,030</b>	<b>8,368</b>	<b>230,279</b>	<b>2,025</b>	<b>5,436</b>	<b>349,236</b>	<b>-</b>	<b>194,030</b>	<b>-</b>	<b>11,415</b>	<b>2,823,482</b>
<b>Revenues over expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,560</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (114,458)</b>	<b>\$ -</b>	<b>\$ 5,533</b>	<b>\$ -</b>	<b>\$ 44,107</b>	<b>\$ (62,256)</b>

**GATEWAY AREA DEVELOPMENT DISTRICT  
INDEPENDENT AUDITORS' REPORT ON CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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To the Board of Directors  
Gateway Area Development District  
Morehead, Kentucky

We have audited the financial statements of Gateway Area Development District as of and for the year ended June 30, 2010, and have issued our report thereon dated October 25, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Gateway Area Development District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gateway Area Development District's internal control over financial reporting. Accordingly, we do not express such an opinion on the effectiveness of Gateway Area Development District's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Gateway Area Development District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under **Government Auditing Standards**.

This report is intended solely for the information and use of the Board of Directors, management and appropriate grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Ray, Foley, Hensley and Company*

Ray, Foley, Hensley and Company, PLLC  
October 25, 2010

**GATEWAY AREA DEVELOPMENT DISTRICT  
INDEPENDENT AUDITORS' REPORT ON CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

---

To the Board of Directors  
Gateway Area Development District  
Morehead, Kentucky

We have audited the financial statements of Gateway Area Development District as of and for the year ended June 30, 2010, and have issued our report thereon dated October 25, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Gateway Area Development District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gateway Area Development District's internal control over financial reporting. Accordingly, we do not express such an opinion on the effectiveness of Gateway Area Development District's internal control over financial reporting.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Gateway Area Development District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Gateway Area Development District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Gateway Area Development District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management and appropriate grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Ray, Foley, Hensley and Company*

Ray, Foley, Hensley and Company, PLLC  
October 25, 2010

**GATEWAY AREA DEVELOPMENT DISTRICT  
INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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Board of Directors  
Gateway Area Development District  
Morehead, Kentucky

Compliance

We have audited the compliance of Gateway Area Development District, with the types of compliance requirements described in the **U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement** that are applicable to each of its major federal programs for the year ended June 30, 2010. Gateway Area Development District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Gateway Area Development District's management. Our responsibility is to express an opinion on Gateway Area Development District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States; and OMB Circular A-133, **Audits of States, Local Governments, and Non-Profit Organizations**. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gateway Area Development District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Gateway Area Development District's compliance with those requirements.

In our opinion, Gateway Area Development District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Gateway Area Development District, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Gateway Area Development District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Gateway Area Development District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

**GATEWAY AREA DEVELOPMENT DISTRICT  
INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133, (continued)**

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Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley & Company, PLLC

October 25, 2010

**GATEWAY AREA DEVELOPMENT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
for the year ended June 30, 2010**

GRANTOR/PROGRAM TITLE	Federal CFDA Number	Pass/Through Contract Number	Grant Contract Period	Expenditures	Note
U.S. Department of Commerce					
1. Appalachian Regional Commission JFA-ARC Planning	23.009		07/01/09-06/30/10	\$ 54,844	(1)
2. Economic Development Administration Revolving Loan Program	11.302			894,983 *	(3)
Passed through the State (Department for Local Government) JFA-Community and Economic Assistance	11.302		07/01/09-06/30/10	63,189	
U.S. Department of Housing & Urban Development Passed through the State (Department for Local Government) JFA- CDBG	14.218		07/01/09-06/30/10	13,495	(1)
U.S. Federal Highway Administration (FHWA) Passed through the State (Transportation Cabinet) Highway Safety	20.205		10/01/08-09/30/09	11,088	
U.S. Department of Health and Human Services Passed through the State (CHFS DAIL)					
Title III B	93.044	PON2 725 0800007369 4	07/01/09-06/30/10	154,661 *	
Title III C1	93.045	PON2 725 0800007369 4	07/01/09-06/30/10	120,575 *	
Title III C2	93.045	PON2 725 0800007369 4	07/01/09-06/30/10	65,541 *	
NSIP	93.053	PON2 725 0800007369 4	07/01/09-06/30/10	41,306 *	
ARRA - Congregate Meals	93.707	PON2 725 0800007369 4	07/01/09-06/30/10	17,890 *	
ARRA - Home Delivered Meals	93.705	PON2 725 0800007369 4	07/01/09-06/30/10	8,812 *	
Total aging cluster				408,785	
Title III E Caregiver	93.052	PON2 725 0800007369 4	07/01/09-06/30/10	47,239	
Title VII Elder Abuse	93.041	PON2 725 0800007369 4	07/01/09-06/30/10	1,570	
Title VII Ombudsman	93.042	PON2 725 0800007369 4	07/01/09-06/30/10	2,989	
Title III D	93.043	PON2 725 0800007369 4	07/01/09-06/30/10	8,345	
AOA - MIPPA AAA	93.071	PON2 725 0800007369 4	07/01/09-06/30/10	2,085	
CMS - MIPPA ADRC/AAA	93.779	PON2 725 0800007369 4	07/01/09-06/30/10	2,528	
CMS - MIPPA ADRC	93.779	PON2 725 0800007369 4	07/01/09-06/30/10	443	
HICA	93.779	PON2 725 0800007369 4	07/01/09-06/30/10	16,579	
Total HHS				490,563	
U.S. Department of Labor					
Passed through the State (Education and Workforce Development Cabinet)					
Passed through Buffalo Trace Area Development District					
WIA Adult Programs	17.258	PON2 0800008202 2	07/01/09-06/30/10	34,793	
WIA Adult Programs - ARRA	17.258	PON2 0800008202 2	07/01/09-06/30/10	6,715	
WIA Dislocated Workers	17.260	PON2 0800008202 2	07/01/09-06/30/10	15,096	
WIA Dislocated Workers - ARRA	17.260	PON2 0800008202 2	07/01/09-06/30/10	25,126	
Rapid Response - ARRA	17.260	PON2 0800008202 2	07/01/09-06/30/10	32,610	
Total DOL				114,340	
U.S. Department of Homeland Security					
Passed through the State (KOHS)					
NIMS Cast	97.067		07/01/09-11/30/09	2,025	
Passed through the State (Division of Emergency Management)					
Pre-Disaster Mitigation - ARRA	97.067		03/19/10-06/30/12	5,436	
Total Homeland Security				7,461	
Total				\$ 1,649,963	

Notes:

- 1) The Joint Funding Administration (JFA) program, which is reported under various federal agencies, is passed through the Commonwealth of Kentucky, Department of Local Government (DLG).
- 2) Unearned revenue from other grantors both current and prior are disclosed in Note 5 to the financial statements.
- 3) The EDA-Revolving Loan Program includes a capital balance of \$894,983 - 75% of which is Federal - \$671,237, and 75% of administrative expenditures equaling \$12,023.

\*Denotes Major Program

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Gateway Area Development District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers.

**GATEWAY AREA DEVELOPMENT DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
for the year ended June 30, 2010**

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**I. SUMMARY OF AUDITORS' RESULTS**

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified ☐ Yes ☒ No

Significant deficiencies identified that are not  
considered to be material weaknesses ☐ Yes ☒ None reported

Non-compliance material to financial statements noted ☐ Yes ☒ No

Federal Awards:

Internal control over major programs:

Material weaknesses identified ☐ Yes ☒ No

Significant deficiencies identified that are not  
considered to be material weaknesses ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major programs:

Unqualified for all major programs.

Any audit findings disclosed that are required to be reported in  
accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
11.302	EDA Revolving Loan Fund
93.044, 93.045, 93.053, 93.705	Title III, Part B, C I & II, NSIP, ARRA

Dollar threshold used to distinguish between type A  
and type B programs:

\$ 300,000

Auditee qualified as a low-risk auditee? ☐ Yes ☒ No

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS**

NONE

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

NONE

**IV. PRIOR AUDIT FINDINGS**

See the following page.

**GATEWAY AREA DEVELOPMENT DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
for the year ended June 30, 2010**

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**FINDINGS:**

NONE

**PRIOR YEAR FINDINGS:**

**2009-01**

Payroll cost allocations were not made in accordance with the Cost Allocation Plan and the Joint Funding Administration (JFA) Manual during the fiscal year.

Management replaced the employee responsible for processing payroll. In addition, time sheets entries are now verified after entry to ensure accuracy.